

An Open Letter to The Boston City Council

Written at the Request of Council President Michael P. Ross

By

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Introduction

Older cities, like Boston, once grew great as the nodes of a transport network that spanned America. Their early successes came as places of water-borne commerce—trading hubs for their region and the world. In the 19th century, industry followed commerce because it was cost-effective to locate factories near wharves and rail yards. But in the 20th century, the costs of moving goods plummeted and industry left cities. By the 1970s, Boston and Buffalo, New York and Detroit were all on the brink of disaster as social crisis had accompanied economic decline, and America's older cities seemed headed for the trash heap of history.

The miraculous event of the last 30 years is that many, but not all, of these older places have managed to come back. A central paradox of our age is that despite the death of distance, cities are more vital than ever. Despite the fact that industry no longer clusters around Boston's wharves, the city has managed to remain dynamic, exciting and innovative. The reason for Boston's resurgence is that the same density that once made it easy to move hogsheads onto clipper ships now enables the exchange of ideas.

Boston's comeback is remarkable, but it is hardly unique. Boston has long been rich in skills, and human capital—usually measured by the share of adults with college degrees—is the best predictor of urban success among America's older, colder cities. Boston and Minneapolis have done much better than Buffalo and Cleveland because they had a much stronger skill base even in the 1970s. That skill base has only been enhanced over time by the strong tendency of skilled people to move into initially skilled areas.

The correlation between skills and big city success is not mere happenstance. Cities are the absence of space between people and firms. They are density, proximity, closeness. Cities succeed when proximity is valuable, and closeness acquires value because it enables the free flow of goods, people and ideas. Cities may have lost their edge as places for moving goods, but they keep their value as places for people to provide business services and as areas where new knowledge is generated.

The role of proximity in speeding the flow of ideas explains why cities have managed to succeed despite the decline of transportation and communication costs. Globalization and new technologies have increased the returns to being smart, and human beings are a social species. We become smart by hanging out with other smart people. Since the returns to skill have risen, so have the returns from locating in cities filled with smart people and that is the ultimate source of Boston's post-1970 rebirth.

What does this mean for local economic policy? Local governments should be focused as much on attracting and training smart people as on attracting employers. Skilled people both attract employers and become entrepreneurs. Moreover, it is much easier to quantify the local services that attract the skilled than to produce an effective business-creation cocktail.

But what policies attract skilled, entrepreneurial people? There are effectively two schools of thought on this issue. One school, associated strongly with Richard Florida, emphasizes the amenities that appeal to twenty-something creative types: a bubbling arts scene, abundant restaurants and bars and a tolerance toward social diversity. A second view emphasizes the amenities that would attract a forty-year-old parent: good schools, safe streets, fast commutes. Both schools emphasize the importance of affordable, interesting housing.

Moreover, any skills-strategy needs to recognize the comparative advantages of a particular place. Boston's bundle of amenities will never be the same as those offered by Charlotte, North Carolina. Moreover, even within the Boston region, the City of Boston will always attract a different set of residents than suburban areas. Dense, older cities have long had attributes that make them particularly appropriate for young single people, for example, and for immigrants.

This brief essay makes no concrete policy recommendations. It is instead a summary of recent research in this area, and it points towards a direction for further policy analysis. My goal was to provide a starting point for discussing people-oriented policies that can strengthen the city of Boston and its region. I begin with a summary of facts about urban economic growth and success.

I. The Determinants of Urban Growth and Success

The economic approach to cities is quantitative, which unfortunately means that success gets reduced to easily measurable figures, like city population and income levels. These figures certainly miss the rich mosaic of urban life, and they can fail to capture progress in places that are cursed with poverty. Yet there are few civic leaders who are not pleased when their city is getting both richer and more popular, so these are not unreasonable measures. Moreover, growth in income and population tends to be accompanied by other attributes of civic success, like low unemployment rates and crime. Indeed, over the long haul, city employment growth and population growth are almost perfectly correlated.

Research on growth points to four regular correlates of increasing population and employment: sunshine, sprawl, skills and small firms. Across the past century, I have never seen a variable that does as well as January temperature at predicting the population growth

of cities, metropolitan areas and states.¹ The decline in transportation costs, mentioned above, freed Americans to locate in places where they want to live instead of in places that had good transportation connections thanks to railroads and the Great Lakes. People moved to warmer spots.

On one level, this strength of the sun is merely a handicap that Boston inevitably faces. On another level, this fact should serve to reinforce the importance of providing a pleasant living environment. Certainly, Boston isn't going to beat Florida at providing sunshine, but its policies do need to recognize the need compete as a place to live, as well as a place to work.

The second reliable correlate of urban growth is sprawl. Less dense areas have grown more quickly than more dense areas. Places that are car-friendly have increased in size during the era of the car. Despite the Big Dig, Boston will and should remain a city with bones built long before the car. The American (and global) attraction to the automobile is another handicap facing the city.

But the strong connection between fast car commutes and subsequent growth also offers a somewhat more relevant policy lesson. Time is increasingly valuable in today's world. The rise of downtown neighborhoods, like the South End, reflects the desire of increasingly affluent people to pay more to avoid long commutes. Transit-oriented development in the outlying suburbs is unlikely to ever compete all that well with car commutes, but dense dwellings in an urban core can. This is another of Boston's comparative advantages.

A third predictor of urban success is average firm size. Places, and sectors within places, dominated by a few large firms have generally done poorly. Places with an abundance of smaller firms have done well. A ten percent increase in the number of firms per worker in a metropolitan area in 1977 is associated with a nine percent increase in employment growth between 1977 and 2000.² Some authors, notably Annalee Saxenian, have argued that the technology corridor along Route 128 did poorly, relative to Silicon Valley, because the Massachusetts technology sector was far less entrepreneurial and far more dominated by a few large employers.

The connection between employment growth and small firm size suggests that the pursuit of large, highly visible firms is unlikely to be a sensible strategy for long-term growth. Instead, the long run growth of an area is far more likely to come from a steady supply of entrepreneurs—people who are willing to take risks and start their own small firms. Attracting those entrepreneurs, and facilitating spinoffs, seems like a healthier basis for long run growth. At the state level, Massachusetts should be asking whether its policy of

¹ <http://www.economics.harvard.edu/pub/hier/2007/HIER2135.pdf>

² <http://www.economics.harvard.edu/faculty/glaeser/files/Clusters.pdf>

enforcing non-compete clauses, which are not enforced in California, is artificially stifling the process of new firm creation.

The final reliable correlate of urban growth is skills. On average, as the share of a metropolitan area or city's population with college degrees increased by 10 percent in 1990, population growth in the 1990s increased by about four percent.³ As temperatures fall, skills become particularly important in predicting success.⁴ About one-half of the variation in city growth between 1970 and 2000 in the Northeast and Midwest can be explained by the share of the adult population with college degrees in 1970.

Not only do skills predict population increases, but they particularly predict rises in the skilled population. As the share of an area's adult population with college degrees increased by 10 percent in 1980, the growth in the share of that area's population with college degrees increased by 3.7 percent between 1980 and 2000. Instead of spreading more widely across space, skilled people increasingly flocked to areas, like Boston, that started with more skills initially.

Skills are so powerful at increasing area-level population and employment because skills are a strong predictor of income. Holding a person's own years of education and age constant, his or her annual income increases by about eight percent as the share of the population with college degrees increases by ten percent.⁵ Economists call these effects human capital externalities, and they reflect the tendency of people to become more effective when they have smarter co-workers and managers. More than a century ago, the great economist Alfred Marshall noted that one of the great advantages of industrial clusters was that in such dense agglomerations: "the mysteries of the trade become no mystery but are, as it were, in the air."

These effects seem to have been getting stronger over time, which explains why people increasingly flock to cities that have more skilled workers. Income growth at the city level is strongly correlated with the initial skills of that area. On average, a ten percent increase in an area's skills is linked with a two percent higher income growth over the next decade. Controlling for initial income (which strongly predicts future income declines), a ten percent increase in the initial share of the population with college degrees is associated with a six percent increase in income growth.

The connection between area level skills and area level success fits into the broader story of American cities over the past 40 years. Globalization and new technologies have made it increasingly possible to manufacture goods throughout the world and ship them anywhere. That process was both a blessing and a curse to cities. American cities could no longer compete as producers of goods, but they could succeed as producers of ideas. After all, a

³ <http://www.economics.harvard.edu/pub/hier/2001/HIER1925.pdf>.

⁴ <http://www.economics.harvard.edu/pub/hier/2003/HIER2025.pdf>

⁵ <http://www.economics.harvard.edu/pub/hier/2003/HIER2025.pdf>.

new idea—manufactured in Boston—could then be produced in China. The same global market that proved such a hardship on car manufacturers in Detroit is nothing but a boom for the innovators in Boston biotechnology.

What does this mean for local public policy? Attracting and educating skilled workers seems like the surest path towards urban success. Over the past 60 years, cities have tried a large number of urban renewal strategies, most of them have involved investing in new forms of physical infrastructure. Some of these investments are worthwhile—people need homes to live in. But the core lesson of the past 60 years is that people, not buildings, make cities happen. Boston has succeeded over four centuries because of its smart people. The challenge facing the city's future is how to keep the city a hub of human capital.

II. Debates within People-Oriented Policies

So far, nothing that I have written suggests any disagreement with Richard Florida and his work on *The Rise of the Creative Class*. Indeed, the book cites my own research as part of evidence for its claims about the importance of educated workers. Florida and I agree strongly on the big point: cities must attract creative people to survive. But we are not always at one about what sort of creative people are crucial to urban success.

On one level, our disagreement is statistical. Florida often emphasizes the correlation between city success and measures such as the abundance of particularly creative occupations or the presence of single-sex households. When I have looked at the data, I have found no correlation between these variables and urban growth, after I control for the share of the population with college degrees.⁶

Our friendly disagreement leads to a slightly different vision about the smart people that should be the object of local policy. If one thought that twenty-somethings in artsy occupations were the wellspring of local entrepreneurship, then this would lead towards policies that emphasize the amenities that appeal to that group. If one thought that smart forty-year olds were just as important, then a different set of amenities would come to mind. One view emphasizes café life; the other emphasizes decent schools.

But while more generally, I see much value in courting the middle-aged (my own demographic), cities have a particular appeal for those people who do not have large families. About one-half of American adults are currently married. In Boston, less than 30 percent of adults are married. There are good reasons for the difference between the city and the country and that difference should also guide local policy.

Housing in cities is more expensive, which naturally leads large families that want large homes to suburbanize. Moreover, housing in cities is disproportionately made up of rental units. Sixty-two percent of housing units in Boston, for example, are rentals as opposed to

⁶ http://www.economics.harvard.edu/faculty/glaeser/files/Review_Florida.pdf

33 percent in the county as a whole. Typically, families with children choose to be homeowners.

Cities have also suffered from the weaknesses of big city school districts. While Boston has many fine public schools, there is no doubt that many people leave the city because of their belief that the suburban public schools will better educate their children. No one with any historical memory can forget the suburban exodus associated with the Supreme Court's decision to limit busing to city boundaries in the 1974 *Miliken v. Bradley* decision.

Cities also have pleasures that disproportionately attract young, single people—most notably the presence of other young, single people. Just as cities create markets for commodities and for skills, cities create marriage markets that enable people to meet one another. Density is fun as well as productive. This provides an urban comparative advantage, and smart policies should exploit that advantage.

Immigrants are another group that is disproportionately drawn to dense urban cores. 27.5 percent of Boston's population is foreign born; the comparable number for the United States is 12.5 percent. Many other cities have attracted a much higher share of their population from outside the United States. 39.7 percent of Los Angeles' population is foreign-born. 36.7 percent of New York City's population is foreign-born. In fact, both New York City and Chicago would have lost population in the 1990s if their immigrant population hadn't increased so dramatically.

Immigrants are attracted to cities for good reasons. Cities have well established social networks that smooth the transition into America. Cities provide foods and churches that cater to the newly arrived. Cities have long been places of tolerance. Urban density makes it possible to survive without buying a car for every adult. Urban job markets make it possible for immigrants of all skill levels to thrive. For century cities have been places of entry for immigrants, and immigrants continue to be a great source of strength for cities.

Immigrants remain a great source of skilled workers for Boston and other cities. One of the reasons that cities remain so vital in our globalized age is that they are the gateways between America and the growing economies of the developing world. Immigrants are part of that connection. As an international city, Boston appeals to many foreigners and that is a critical edge that it should use to its advantage.

It may seem, in all this talk of attracting skilled workers, that I have somehow lost sight of caring for Boston's least fortunate. Many of the immigrants that Boston attracts are not rich. Indeed, I believe that the city's poorer residents should be a source of urban pride, not shame. Cities don't make people poor; they attract poor people. Poor people come to Boston because the city offers things that are not available in the car-oriented, more expensive areas of suburban America. Providing homes and opportunity for the poor is a great function of cities, and indeed it is the homogenous suburbs, not the diverse cities, that should feel any twinges of shame.

That being said, the long run success of the city depends on attracting enough skilled people to keep the area's economic engine running. Boston's poor will only be hurt if policies push away the skilled Bostonians who are often their customers and employers. Attracting the skilled should not be seen as the opposite of caring for the poor, but rather as a means of improving their lives.

III. Using Policies to Create a Consumer City

I will end this section with a more concrete discussion of policies that may help make Boston more attractive to its skilled residents. I will group my discussion into three broad categories: the basics (schooling, transportation, education and taxes), new construction and making the city more fun. As I have already suggested, I tend to think that the basics of good city government are the most critical parts of attracting skilled residents. But they are also the parts of city government that are already best understood. For that reason, I will focus more on the two other categories.

The Basic Elements of City Government:

Good Schools, Fast Commutes, Good Schools and Low Taxes

Nothing can make a city less attractive more quickly than crime. If crime is out of control, then beautiful parks become danger zones. A stroll to a restaurant becomes a walk of fear. High crime rates in the 1970s helped spur the urban exodus and particularly encouraged the flight of better educated urbanites.

Yet no one is confused about the value of safety and Boston has long worked hard to keep its streets safe. At this point in time, crime is not the critical challenge to urban success, so it seems like the main goal is for the police force to continue keeping crime under control.

The value of schools is also obvious. A good education system yields a double return because it produces more skilled students and attracts better educated parents. In principle, there is no reason why city schools can't be better than schools in the suburbs. After all, the same virtues of urban competition and innovation that work well in the restaurant business should also work well in education. Yet too often, urban school districts have underperformed and this has been a major force pushing educated parents to leave urban areas.

Boston is not confused about the value of schooling, but there is still surely room for improvement. Moreover, the importance of attracting skilled people pushes towards paying more attention at the high end of the human capital distribution. Anything that can be done to eliminate the desire of skilled parents to leave the city in order to get better schools will have value. There are many different options and they presumably should all be discussed.

Boston's mean travel time to work is 28.6 minutes, which is 3.3 minutes higher than the U.S. average. The gap has stayed constant since the last census. In general, places like Boston that are heavy users of public transportation are also places with higher commute times, because travelling by train and bus is generally much slower than travelling by car.

Given the high value of time, improving commute speeds is desirable, but it is hard to imagine how to easily improve the MBTA.

There are only two natural tools with which to speed Boston commutes. One approach is to build more high-rise residential buildings in the city's urban core. I will address that issue in the next section. The second approach is to follow London and adopt some form of congestion pricing which reduces traffic on city streets during core commuting hours.

Economists are usually enthusiastic about charging people for the social costs of their actions, and when people drive on crowded city streets, they impose costs on other drivers. Boston's traffic has not reached the level of New York or London so it is not completely clear that the benefits of charging drivers to use city streets outweigh the costs of operating such a tool. Still, congestion charging is the one form of low hanging fruit that could potentially make Boston's streets more pleasant without spending large amounts of money.

The final core issue that relates to attracting talent is tax policy. It is often thought that higher taxes always repel residents, but that is only true if those taxes aren't providing anything in return. The many people who continue to reside in high tax jurisdictions are living proof that taxes do not always lead to exit. However, the absence of a city-specific income tax is probably helpful in attracting more skilled residents. Certainly, there is state-specific question about whether Massachusetts' income tax is repelling skilled people, but that is not a fit subject for this letter. The more relevant question is whether the tax policies that do exist tend to discourage more skilled residents from residing in Boston, but it is not obvious that they do.

Land Use Controls and New Construction

The downside of Boston's economic renaissance is the increase in the area's housing prices. In the 1970s, Boston was a relatively inexpensive place, with the majority of housing priced below the cost of new construction. Between 1980 and 2000, Boston's housing prices increased by 429 percent, the fourth highest growth among all American cities with more than 25,000 inhabitants. That growth reflects the combination of rising demand and limited supply. Despite the recent downturn, Boston remains one of the most expensive areas of the country and its high costs act to repel young, skilled migrants. Boston should wish that the robust demand for housing in the area will continue, but improving housing supply is an attractive area for policy reform. One area where supply could increase might be dormitory housing.

The core economics of housing prices are actually pretty simple: they reflect the intersection of supply and demand. The demand for housing in a place comes from its economic vitality and its consumer amenities. Bostonians' willingness to pay high housing costs reflects the high wages paid in the region. The supply of housing reflects the ease of building new housing units. For example, much of the Sunbelt manages to stay affordable despite high demand (as shown by large population growth) because it permits large amounts of housing.

A more relevant comparison to Boston may be Chicago, which is also a great, dense city, but which is much more affordable, in part because it has a much more permissive attitude towards new construction.

Since the 2000 Census, Boston has permitted less than 10,000 housing units, about four percent its housing stock in that year. This very moderate growth does not reflect a lack of demand. High prices demonstrate people's willingness to pay to live in the region. Instead, Boston's moderate growth of both housing units and population reflects the decisions made by the city to permit a very small number of new homes. These permitting decisions are the primary brake on the city's expansion.

Extreme limits on the amount of new building in the city have several pernicious effects. Not enough homes means that there are not enough skilled people moving into the city. This hampers the economic vitality of the place. Conversely, there are too many people living outside of the city, which means longer commutes and more carbon emissions. Limits on construction means that prices are artificially high, not only for skilled migrants moving into Boston but also for longer term residents afflicted by rising rents. Finally, an older housing stock inevitably means a stock that is poorly matched towards the current needs of the city. According to the Census, only 7.3 percent of the city's housing stock has been built since 1990.

There are, of course, tradeoffs in permitting new construction. Many of Boston's older neighborhoods are treasures of the city. Yet surely, not every area in Boston needs to limit construction. The benefits of more development are quite large, especially development that providing soaring attracting apartments down. Surely, there are some downtown areas that could be built up.

Construction policy should be seen as an integral part in any approach towards strengthening the city's skill base. Boston has built far less over the last twenty years than it did during the less booming years of the 1960s and 1970s. The decline in construction is an important policy issue that deserves more attention.

Making Boston More Fun

Of course, those new apartments will only attract skilled residents if they are built in exciting neighborhoods that are fun to live in. Boston already enjoys a reputation as a city that is full of arts and entertainment, but more can clearly be done. It is also easier to build on a strength than make up for a weakness and luckily Boston has many strengths as a consumer city.

The government has two major roles in engendering entertainment: regulation and control of public spaces. It has a more minor role in supporting transportation to and from places of entertainment. All areas may have some room for improvement.

In the case of permitting restaurants and bars, the key question is whether the appropriate number of permits is being granted. New innovation can easily be blocked by regulation and this is as true in the entertainment field as elsewhere. Of course, bars can also make some areas less pleasant, which is why there is a tradeoff. A renewed look at this topic seems appropriate.

Boston has many wonderful public spaces, but it isn't obvious that those spaces are always being used appropriately. Perhaps the most famous failure is the space outside of Government Center, which has never lived up to its promise as a place for entertainment. By contrast, Faneuil Hall is a famous success. It is worth revisiting the issue of whether these spaces are being used to their fullest potential.

A final issue is whether the MBTA's suspension of service at 12:45 a.m. is ideal. In many cases, public transit is far safer mode for revelers than automobiles. This can also be re-examined.

The government cannot make a city more fun directly. The City Council should not become an inn keeper. But it is appropriate to ask whether public regulations are helping or hampering Boston's quest to be as exciting a city as it can be.

IV. Conclusion

For 400 years, Boston has survived on the wits of its inhabitants despite a dearth of natural resources. In our information age, the importance of attractive human capital is more important than ever. The best local economic development strategy is to attract smart people and to get out of their way.

This strategy is no excuse for laissez-faire government. In today's globalized marketplace, Boston must compete for skilled workers both against New York and against Bangalore. The city's amenities must be strong and its housing must be affordable if it is to pull in a wide range of educated and entrepreneurial migrants. This is the great challenge facing public policy.

There are few easy answers. It would be wonderful to easily improve schools, or to drive crime rates even further down, but these tasks are difficult. Perhaps the most natural places to examine reform are in the areas of housing construction, traffic congestion and regulating entertainment. Boston can only remain a great city if its leaders make every effort to ensure that it stays as exciting as possible.